Report of the auditor-general to the Western Cape Provincial Parliament and the council on Prince Albert Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Prince Albert Municipality set out on pages 4 to 87, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Prince Albert Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA).

Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 44 and 45 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of the reclassification due to the implementation of mSCOA and errors discovered during 2017-18, in the financial statements of the Prince Albert Municipality at, and for the year ended, 30 June 2018.

Material impairments

8. As disclosed in notes 7 and 8 to the financial statements, the municipality has provided for impairment of trade receivables from exchange transactions and other receivables from non-exchange transactions in the amount of R7 258 568 and R26 853 002 respectively, as management's impairment assessment indicated that these debtors would default on their accounts.

Material unauthorised expenditure

9. As disclosed in note 50.1 to the financial statements, the municipality incurred material unauthorised expenditure to the value of R5 116 614 due to incorrect budgeting.

Other matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages 88 to 98 did not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express and opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express and opinion thereon.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

14. In preparing the financial statements, the accounting officer is responsible for assessing the Prince Albert Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected strategic objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Strategic objective	Pages in the annual performance report
Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis	72 - 74

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis

21. I did not raise any material findings on the usefulness and reliability of the reported performance information for this strategic objective.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. Refer to the annual performance report on pages 70 to 77 for information on the achievement of planned targets for the year.

Unaudited supplementary information

24. The supplementary information set out on pages 97 to 110 does not form part of the annual performance report and is presented as additional information. We have not audited these schedules, and accordingly, we do not express a conclusion on them.

Report on the audit of compliance with legislation

Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

26. The material findings on compliance with specific matters in key legislations are as follows:

Procurement and contract management

27. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

28. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.

29. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

Other information

30. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected strategic objective presented in the annual performance report that have been specifically reported on in this auditor's report.

31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

32. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

33. I did not receive the other information prior to the date of the audit auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditors' report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

34. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

35. Management did not exercise oversight responsibility regarding adherence to the 2017 Preferential Procurement Regulations in procurement of goods and services during the financial year resulting in material non-compliance relating to the procurement process of local content.

Financial and performance management

36. Management has not implemented adequate internal controls around local content to ensure that the bid documentation for procurement of commodities designated for local content did not stipulate the minimum threshold for local production and was awarded to suppliers who did not submit the declaration. Although corrective action was taken during the financial year there were instances which were not timeously responded to which resulted in the material non-compliance.

Cape Town

30 November 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected strategic objective and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Prince Albert Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.